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Economic Output For January To November 1990

Again the Soviets did not present or publish a formal breakdown of statistics. They have published selected figures indicating that in some cases the USSR State Committee for Statistics lacked figures itself. In particular they did not have information about the production of meat and edible food oils.

The materials that are provided are highly selective and in the case of gross indices they may not be all that reliable. It was reported that industrial output was down .9% during the first eleven months of 1990 compared to 1989. For the month of November alone industrial production was down almost 2% compared to the month of November the year earlier. Some of the information indicates that the situation seems to have deteriorated during the last few months of the year. That certainly bears out other reports of economic problems within the country.

One cause for considerable concern is the fact that oil production is down 6%. For the first 3/4 of the year production was down only 5%. That shows an increase in the rate of decline. Coal production is still down 5% while gas production continues to increase although no figure is given.

Also of concern is the fact that very little was being completed in drawing up the contractual arrangements for 1991. The deadline for the signing of contracts had been set for December 15 but as of October less that 40% of the plans of enterprises had been agreed compared to 80% the year before. Presumably the agreement between Yeltsin and Gorbachev in early January makes it possible to operate for the remainder of 1991 but the inability to reach contractual agreements on plans reflects the confusion that exists as the Soviet Union tries to move from a planning system to a market system.

With production declining there is also growing concern about the Soviet Union's ability to export. In 1988 the Soviet Union exported 144 million tons of crude oil. In 1989 the total dropped to 127 million tons and it is expected that in 1990 they exported only 100 million tons of crude oil, almost a 50% drop from 1988. Equally disturbing is the fact that it is expected exports will reach only 60 to 80 million tons in 1991.

Export earnings as a whole are expected to reach 40 billion rubles in 1991 (versus 68 billion rubles in 1989). What is bothersome about that 40 billion rubles however is that they expect that 12.5 billion rubles of it will have to be deducted to service the past Soviet debt.

Inflation Continues

There is supplemental information about the growth of inflation in the Soviet Union. The Soviets have published some information about prices in the collective farm markets on agricultural products based on a sample of 264 cities. The

following table reflects the fact that in January 1990 prices were 13% higher than was the case in 1989. However by June the figure had reached a 27% increase over the preceding June and in October the figure was 38%.

At the same time the Soviets have also published figures which help explain why there are so few goods in state shops. They have published data showing how much higher prices are in what they refer to as the black market compared to the state shops. In the case of meat for example the price in the black market is 4 time higher than it is in the state shops. The price of medicines and cigarettes is 8 times higher and the price of books is 6 times higher.

Prices of Agricultural Products at Collective Farm Markets in 1990

	% of prices compared with 1989
January	113
February	112
March	112
April	117
May	121
June	127
July	129
August	130
September	134
October	138
Jan.-Oct	125

Arden House Preparations Underway

We are in the process of completing the program for the annual Arden House Conference. The program should be sent out shortly but already we have commitments from Stanislaw Shatalin, the author of the 500 Day Plan, and Ivan Ivanov, the Deputy Minister of the Commission on Foreign Economic Relations, to attend. In addition Mark Winer, the General Manager of McDonald's in Moscow, will be present as will E. B. Scott, the Vice President of International Petroleum of Chevron who is responsible for Chevron's joint venture in the Soviet Union. In addition there will be the regular attendance of academics including several economists such as Martin Feldstein and Benjamin Friedman of the Harvard Economics Department and Stanley Fisher of MIT's Economics Department, all of whom have been working on the Soviet Union. Ben Friedman has worked as a member of the Shatalin Commission and Stanley Fisher was very much involved with the preparation of the IMF-World Bank when he was chief economist at the World Bank. Given what is happening in the Soviet Union, this promises to be one of the most interesting of all the 15 conferences we have had.

Conference on Conversion

The February 4th conference on conversion of military to civilian industry is rapidly approaching. We have just had confirmation from the Soviet Union that they will be sending the Deputy Minister of the Nuclear Tools Industry, Yurii Tychkov. In addition he will be bringing with him the Director of the Nuclear Machinery Plant in Novosibirsk as well as the director of one their export firms dealing with nuclear equipment. The comparisons between the Soviet experience and the American experience should be intriguing. The program and the application form is included with the newsletter.

FOREIGN EXCHANGE RATES
as of December 26, 1990
Quoted in rubles

	Official Rate	Commercial Rate	Special Rate
£100 Sterling	105.79	317.37	1057.90
100 Aust. Sch.	5.22	15.66	52.20
100 D. Marks	36.71	110.13	367.10
100 D. Guilders	32.51	97.53	325.10
100 U.S. Dollars	56.40	169.20	564.00
100 Fr. Francs	10.80	32.40	108.00
1,000 Jap. ¥	4.15	12.45	41.50
10,000 It. Lire	4.88	14.64	48.80
100 Swiss Frs.	43.00	129.00	430.00
100 Nor. Kroner	9.38	28.14	93.80
1,000 Bel. Frs.	17.77	53.31	177.70
100 Sw. Kronor	9.86	29.58	98.60

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Shevardnadze's sacrifice

MARSHALL I. GOLDMAN

Soviet Foreign Minister Eduard Shevardnadze's resignation has probably hurt Soviet leader Mikhail Gorbachev as much as anything could. Gorbachev has acknowledged that the original idea for perestroika and glasnost arose out of a conversation he had several years ago with Shevardnadze as they walked along the Black Sea coast in the republic of Georgia. Why, they asked each other, can't the people of the Soviet Union enjoy a better life? Why must we be on the brink of war, with all the waste it entails, and why can't we relax our police controls?

Once Gorbachev became general secretary, he decided to try for a better life and lifted Shevardnadze out of domestic political affairs and made him foreign minister. Andrei Gromyko's frown quickly dissolved into Shevardnadze's smile. More important, nyet became da, and the world became a happier, more relaxed place.

The relaxation of world tensions was an important part of that reform process. That meant that the Soviet Union could reduce its military expenditures and cut back on the size of its army.

That, in principle, should have made possible a diversion of resources to the production of more consumer goods. But the effort to improve day-to-day life did not succeed. In part, it took much longer to switch resources out of the military than anticipated. Thus Gorbachev was not able to produce as many consumer goods as he led the population to expect.

Because Gorbachev could not cut his budget expenditures, he ended up with a burdensome deficit that soon gave rise to an inflation rate that has now reached 50 percent a year and is growing. This, more than anything, has led to the hoarding and empty shelves.

At the same time, enough money was transferred from the Soviet military-industrial complex to set off concern among Soviet troops about their future. Gorbachev announced the unilateral demobilization of a half-million men. Most were ill-trained for civilian life and, in many cases, had no jobs or no homes. Added to that was the humiliation they felt after they were forced to withdraw from Afghanistan. Finally, there was enormous disappointment over the way that Germany quickly reunified and the East Europeans threw out their communist leaders. All this was seen as the inevitable consequence of Gorbachev's and Shevardnadze's foreign policy.

Against this background, hard-liners and anti-reformers began to coalesce. As they saw it, the final straw was Shevardnadze's vote in the United Nations to support US foreign and imperialist policies, if you will, in the Persian Gulf. Also, Shevardnadze seemed to be bargaining away the Soviet Union's strategic advantage in long-range missiles. In protest, some of these hard-liners began to call for Shevardnadze's resignation. Such calls were made in February at a Central Committee meeting and have been heard frequently since.

By resigning, Shevardnadze seems to be giving away to those demands. But somehow he seems to have hoped his dramatic step, with no notice to Gorbachev, would serve to arouse Gorbachev to the dangers of aligning himself too closely to the anti-reformers.

The stakes in this contest for Gorbachev's soul are enormous. Without Shevardnadze, the prospects for a US-Soviet summit are now in doubt, just as is the signing of a strategic-arms agreement. In addition, Saddam Hussein must feel happy that the new coalition of UN powers in the Persian Gulf is weaker than the US would like to think.

Finally, Shevardnadze is telling Gorbachev that he must come to terms with the secessionist movement in the republics. Shevardnadze, a Georgian, must feel loyalty to his people, who have been the most worried about transferring power to a Soviet president.

"Gorbachev is my friend," said Shevardnadze, "but someday he won't be the Soviet president and we will end up with another dictator." This is a frightening prospect, not only for the Soviet people but also for the United States. In a sense, Shevardnadze sacrificed himself to avoid it.

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